

**VIRGINIA COLLEGE SAVINGS PLAN  
RICHMOND, VIRGINIA**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2000**



## **AUDIT SUMMARY**

Our audit of the Virginia College Savings Plan for the year ended June 30, 2000, found:

- the financial statements are presented fairly in accordance with generally accepted accounting principles;
- a reportable condition in the internal control over financial reporting; however, we do not consider this finding to be a material weakness; and
- no instances of noncompliance that are required to be reported.

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December 8, 2000

The Honorable James S. Gilmore, III  
Governor of Virginia  
State Capitol

The Honorable Vincent F. Callahan, Jr.  
Chairman, Joint Legislative Audit  
and Review Commission

Board of Directors  
Virginia College Savings Plan

We have audited the accounts and records of the **Virginia College Savings Plan** as of and for the year ended June 30, 2000, and submit herewith our complete reports on financial statements, compliance, and internal controls.

#### INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the balance sheet of the Virginia College Savings Plan (Plan) as of June 30, 2000, and the related statement of revenues, expenses, and changes in retained earnings and statement of cash flows for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Virginia College Savings Plan as of June 30, 2000, and results of its operations and cash flows for the year then ended, in conformity with generally accepted accounting principles.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of the Virginia College Savings Plan as of and for the year ended June 30, 2000, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, and contracts, in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

Compliance

As part of obtaining reasonable assurance about whether the Plan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Plan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Plan's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition entitled "Develop Comprehensive Policies and Procedures Manual" is discussed in the section titled "Internal Control Finding and Recommendation."

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable condition is a material weakness.

Report Distribution and Exit Conference

The "Independent Auditor's Report on Compliance and Internal Control Over Financial Reporting" is intended solely for the information and use of the Governor and General Assembly of Virginia, the Board of Directors and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a public record and its distribution is not limited.

We discussed this report with management at an exit conference held on March 13, 2001.

AUDITOR OF PUBLIC ACCOUNTS

WHC:whb  
whb:44

## INTERNAL CONTROL FINDING AND RECOMMENDATION

### Develop Comprehensive Policies and Procedures Manual

The Virginia College Savings Plan (VCSP) should develop a comprehensive operating policies and procedures manual. The VCSP has some of its policies and procedures documented; however, they have not documented all of the day-to-day operating procedures, including the automated processes necessary to administer the program. The operating policies and procedures manual should also address the following activities.

*Cash management policy* – Management should improve the documentation of its policies and procedures for investing funds, transferring funds to the account managers, and recording investment income.

*Reconciliation procedures* – VCSP should enhance its procedures for reconciling the savings trust (VEST) activity in the records management system to the monthly statements from its custodian. In addition, management should document all reconciliation procedures.

*Financial analysis and forecasting* – Management should document procedures for analyzing the financial performance of each program and the administrative costs for operating the programs.

*Recording financial transactions* – Management should document its procedures for recording financial transactions in the Commonwealth Accounting and Reporting System (CARS) and for financial reporting purposes.

Documenting critical operating policies and procedures will ensure the continuity of operations in the event of the loss of key personnel. VCSP should take a proactive approach in developing policies and procedures for each program and activity of the agency. Having these policies will assist management in ensuring uniformity and consistency in day-to-day operations, analyzing performance, and recording transactions in the records management and accounting systems.

## **FINANCIAL STATEMENTS**



VIRGINIA COLLEGE SAVINGS PLAN  
BALANCE SHEET  
As of June 30, 2000

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ASSETS

Cash, cash equivalents, and investments (Notes 1E and 2)	\$ 344,132,964
Tuition contributions receivable (Note 1F)	162,875,984
Investments held by the Treasurer of Virginia (Note 3)	4,369,885
Interest receivable	1,200,823
Accounts receivable (Note 1G)	32,225
Property, plant, and equipment (net) (Notes 1H and 4)	<u>137,549</u>
Total assets	<u><u>\$ 512,749,430</u></u>

LIABILITIES AND EQUITY

Liabilities:

Accounts payable	\$ 364,733
Amounts due to program participants (Note 1I)	416,444
Obligations under securities lending (Note 3)	4,369,885
Deposits pending distribution	403
VPEP tuition benefits payable (Note 1J and 6)	401,262,181
VEST tuition benefits payable (Note 1J)	21,805,146
Accrued liability for compensated absences (Note 1K)	<u>85,515</u>

Total liabilities	428,304,307
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Equity:

Retained earnings	<u>84,445,123</u>
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Total liabilities and equity	<u><u>\$ 512,749,430</u></u>
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The accompanying notes are an integral part of this financial statement.

VIRGINIA COLLEGE SAVINGS PLAN  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS  
For the Fiscal Year Ended June 30, 2000

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Operating revenues:	
Interest, dividends, and rents	\$ 13,540,678
Net increase in fair value of investments	7,974,009
Tuition contributions	71,715,736
Application fees	761,118
Other revenue	484
Total operating revenue	<u>93,992,025</u>
Operating expenses:	
Personal services	1,083,630
Contractual services	4,265,247
Supplies and materials	16,225
Expendable equipment	114,156
Depreciation	23,398
Rent, insurance, and other related charges	82,442
Tuition benefits expense (payouts)	19,829
Actuarial tuition benefits expense	68,265,671
Other expenses	9,873
Total operating expenses	<u>73,880,471</u>
Operating income	<u>20,111,554</u>
Nonoperating revenues (expenses):	
Income from securities lending transactions	106,240
Expenses for securities lending transactions	(101,351)
Total nonoperating revenues	<u>4,889</u>
Income before transfers	20,116,443
Transfers:	
Transfers to the General Fund of the Commonwealth	<u>(3,467)</u>
Net income	20,112,976
Retained earnings - July 1, 1999 (Note 9)	<u>64,332,147</u>
Retained earnings - June 30, 2000	<u>\$ 84,445,123</u>

The accompanying notes are an integral part of this financial statement.

VIRGINIA COLLEGE SAVINGS PLAN  
STATEMENT OF CASH FLOWS  
For the Fiscal Year Ended June 30, 2000

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Cash flows from operating activities:	
Receipts from contract purchasers	\$ 76,776,627
Payments to suppliers for goods and services	(92,813)
Payments to employees	(1,016,567)
Payments for quasi-external operating transactions with other funds	(260,735)
Payments for contractual services	(4,076,388)
Other	(29,571)
Net cash provided by operating activities	<u>71,300,553</u>
Cash flows from noncapital financing activities:	
Transfers to the General Fund of the Commonwealth	<u>(3,467)</u>
Net cash used for noncapital financing activities	<u>(3,467)</u>
Cash flows from capital and related financing activities:	
Acquisition of fixed assets	<u>(131,039)</u>
Net cash used for capital and related financing activities	<u>(131,039)</u>
Cash flows from investing activities:	
Purchase of investments	(971,032,577)
Proceeds from sales or maturities of investments	901,196,495
Interest on cash, cash equivalents, and investments	<u>14,274,530</u>
Net cash used for investing activities	<u>(55,561,552)</u>
Net increase in cash and cash equivalents	15,604,495
Cash and cash equivalents - July 1, 1999	<u>81,748,913</u>
Cash and cash equivalents - June 30, 2000	<u><u>\$ 97,353,408</u></u>

VIRGINIA COLLEGE SAVINGS PLAN  
STATEMENT OF CASH FLOWS (continued)  
For the Fiscal Year Ended June 30, 2000

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Reconciliation of operating income to net cash provided	
by operating activities:	
Operating income	\$ 20,111,554
Adjustments to reconcile operating income to net cash provided	
by (used for) operating activities:	
Depreciation	23,398
Interest on investments	(14,269,642)
Net increase in fair value of investments	(7,974,009)
Changes in assets and liabilities:	
(Increase) decrease in interest receivable	(680,324)
(Increase) decrease in tuition contributions receivable	(5,771,257)
Increase (decrease) in accounts payable, deposits, and other liabilities	118,704
Increase (decrease) in due to program participants	(10,370,840)
Increase (decrease) in tuition benefits payable	90,070,817
Increase (decrease) in compensated absences	42,152
Net cash provided by operating activities	<u>\$ 71,300,553</u>
Reconciliation of cash, cash equivalents, and investments:	
Per the balance sheet:	
Cash, cash equivalents, and investments	\$ 344,132,964
Less:	
Investments with original maturities greater than three months	<u>(246,779,556)</u>
Cash and cash equivalents per the statement of cash flows	<u>\$ 97,353,408</u>

The accompanying notes are an integral part of this financial statement.

## **NOTES TO FINANCIAL STATEMENTS**

## VIRGINIA COLLEGE SAVINGS PLAN

### NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2000

#### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Virginia College Savings Plan (Plan), an independent agency of the Commonwealth of Virginia, was created in 1994 by the Virginia General Assembly and its enabling legislation is codified at §23-38.75 through §23-38.87 of the Code of Virginia, as amended. The agency operates the Commonwealth's IRC §529 qualified state tuition program, which offers two options, the Virginia Prepaid Education Program (VPEP) and the Virginia Education Savings Trust (VEST).

VPEP is a defined benefit program, which offers contracts, for actuarially determined amounts, guaranteeing full future tuition payments at State higher education institutions. The contract provisions also allow the benefits to be used for private or out-of-state institutions at a prorated amount based upon the amounts charged by the State's higher education institutions. VPEP has a limited enrollment period each year, and is open to children in the ninth grade or younger if the child or participant is a Virginia resident. During the four enrollment periods to date, over 32,000 accounts have been opened, with cash collections of approximately \$287.5 million as of June 30, 2000. The program invests contract payments to meet future obligations. Operating costs of VPEP are paid from program earnings. The program's assets and income are exempt from federal, state, and local income taxation. Legislation was passed in 1998 to provide a financial guarantee to cover VPEP contractual obligations in the unlikely event of a funding shortfall.

VEST is a defined contribution program, which allows participants of all ages to save for qualified higher education expenses, including tuition and fees, at institutions nationwide by making contributions into the investment portfolio(s) of their choice. Participants can make an initial selection from among seven investment portfolios. The VEST program, which is open year round, has no age or residency restrictions, and carries no legislative guarantee of return of principal. VEST accounts involve investment risk, including the possible loss of principal. VEST began operations in December 1999, and during the first year of program operation, over 5,800 accounts were opened, with cash collections of approximately \$20 million as of year-end. Investment management fees and VEST operating expenses are paid on a pro-rata basis by each VEST account owner and vary according to the portfolio selected. VEST accounts provide investors with the same federal and state tax benefits available to participants in the prepaid program. Unlike VPEP, VEST is not backed by the Commonwealth of Virginia and investments are not guaranteed.

An eight-member Board administers the Plan, consisting of four members who sit on the Board by virtue of the state offices they hold and four citizen members appointed by the Governor. The ex-officio members are the Director of the State Council of Higher Education for Virginia, the Chancellor of the Virginia Community College System, the State Treasurer, and the State Comptroller. State law mandates that the four citizen members have significant experience in finance, accounting, and investment management.

A separate report is prepared for the Commonwealth of Virginia, which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The Plan is an integral part of the reporting entity of the Commonwealth of Virginia and is included in the general-purpose financial statements of the Commonwealth.

The following is a summary of significant accounting policies employed by the Virginia College Savings Plan.

A. Basis of Presentation

GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, provides governments two options for reporting their proprietary fund activities. The accompanying financial statements have been prepared and apply all applicable Governmental Accounting Standards Board (GASB) pronouncements and all Financial Accounting Standards Board Statements and Interpretations, Accounting Principle Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

B. Reporting Entity

The accompanying financial statements report the financial position, results of operations, and cash flows of the Plan as of and for the fiscal year ended June 30, 2000. For financial reporting purposes, the Virginia College Savings Plan includes all required funds and account groups, and all entities over which the Plan exercises or has the ability to exercise oversight authority.

C. Plan Structure

The accounts of the Virginia College Savings Plan are organized in accordance with the Commonwealth Accounting and Reporting System, which has been established to account for specified financial activities of the Commonwealth. The activities of the Plan are accounted for in an enterprise fund. The enterprise fund accounts for resources received and used for financing self-supporting activities of the Virginia College Savings Plan that offer services on a user-charge basis to the general public.

D. Basis of Accounting

The financial statements are presented on the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when the liability is incurred.

E. Investments

Money market investments of the Plan, which are deemed short-term, highly liquid investments, are reported at amortized cost. Long-term investments of the Plan are recorded at fair value based upon quoted market prices.

The Plan also participates in the Commonwealth's General Account Pool, which is managed by the State Treasurer. These pooled investments are valued on an amortized cost basis. The Plan receives income on a quarterly basis from the Commonwealth based on the Plan's relative participation during the quarter. The Plan receives no additional distribution of unrealized gains or losses in the fair values of the pool's investments.

F. Tuition Contributions Receivable

Tuition contributions receivable represent the actuarially determined present value of future payments anticipated from contract holders.

G. Accounts Receivable

Accounts receivable represents the amount loaned by the Plan to the Virginia College Dream Foundation for organizational startup. The amount will be repaid from unrestricted contributions to the Foundation.

H. Property, Plant, and Equipment

Fixed assets are capitalized and depreciated on a straight-line basis over their useful lives. Fixed assets are valued at historical cost or estimated historical cost. Donated fixed assets are capitalized at estimated market value at the date of contribution. The Plan capitalizes all property, plant, and equipment that have a cost or value greater than \$5,000 and an expected useful life of greater than two years; however, computers are capitalized regardless of cost or value.

I. Amounts Due To Program Participants

Amounts Due to Participants are refunds due to program participants for cancelled prepaid tuition contracts in process at June 30, 2000.

J. Tuition Benefits Payable

Tuition Benefits Payable represents the actuarially determined present value of future obligations anticipated for payment of benefits and administrative expenses for the VPEP program and the market value of the pooled assets available to contributors in the VEST program's seven portfolios. In the VEST program, contributions are recorded and distributions are valued to participant accounts based upon a daily net asset value calculated by the program's custodial bank.

K. Accrued Vacation and Sick Leave Policy

Employees accrue annual leave at a rate of four to seven hours semimonthly, depending on their length of service. The maximum accumulation is dependent upon years of service, but in no case may it exceed 42 days. All employees leaving the agency are paid for accrued vacation leave up to the maximum calendar year limit at their current earnings rate.

In conformance with Section C60 of GASB Codification, the monetary value of accumulated leave payable upon termination is included in the accompanying financial statements. The liability at June 30, 2000, was computed using salary rates effective at that date, and represents vacation and compensatory leave earned up to the allowable ceilings. In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, included in the liability is the agency's share of FICA taxes on leave balances for which employees will be compensated.

Employees of the Plan have elected to participate in the Virginia Sickness and Disability Program. The Virginia Retirement System (VRS) administers the program to provide income protection for absences due to sickness or disability from the first day on the



job. After a seven calendar-day waiting period following the first incident of disability, eligible employees receive short-term disability benefits ranging from 60 to 100 percent of compensation up to a maximum of 125 work days, based upon months of State service. After a 180 calendar-day waiting period (125 work days of short-term disability) eligible employees receive long-term disability benefits equal to 60 percent of compensation until they return to work, until age 65, or until death. Employees enrolled in this program are not eligible for disability retirement benefits under the VRS.

All State agencies were required to contribute to the cost of providing disability benefits. Initial contribution requirements to fund the program were determined by the VRS actuary based on an estimate of the amount of the liability for disability benefits that would transfer from VRS to the new program. The contribution requirement was 0.74 percent of payroll for State employees. Further information about this program can be found in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

## 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

The Board of the Virginia College Savings Plan has full power to invest funds in accordance with §23-38.80 of the Code of Virginia, as amended. This section requires the Board to discharge its duties in a manner which will provide the investment return and risk level consistent with the actuarial return requirements and cash flow demands of the Plan and conforming to all statutes governing the investment of Plan funds. The Board shall exercise the judgment of care under the circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation but to the permanent disposition of funds, considering the probable income as well as the probable safety of their capital when investing funds. In order to meet the return requirements, the Plan's portfolio shall be invested in a broadly diversified portfolio of domestic and foreign stocks, bonds, and cash equivalent investments, which are defined as investments with an original maturity of three months or less. The Board's allocation target for the overall VPEP portfolio, at market value, is 50 percent investment in equity securities and 50 percent investment in fixed income instruments. The Board's allocation targets for the VEST program vary according to the investment objective of each portfolio. To assist in with the investment of the Plan assets, the Board has selected a group of eight external managers. In addition, the Plan has monies invested by the State Treasurer as part of the Commonwealth's General Account.

Investments held by the Plan at June 30, 2000, have been categorized according to the level of credit risk associated with its custodial arrangements at fiscal year end. Credit risk refers to the risk that the Plan may not be able to obtain possession of its investments in the event of default by a counterparty. Category 1 includes investments that are insured or registered or for which securities are held by the Plan or its agent in the Plan's name. Category 2 includes uninsured and unregistered investments for which securities are held by the counterparty's trust department or agent in the Plan's name. Category 3 includes uninsured and unregistered investments for which securities are held by the counterparty, or by its trust department or agent, but not in the Plan's name. At June 30, 2000, the Plan's securities, stocks, and bonds were categorized as Category 1. Mutual and Money Market Funds, Index Funds, and funds held in the State Treasurer's Investment Pool are non-categorized.

	<u>Fair Value</u>
Category 1:	
U.S. Treasury and agency securities	\$ 43,296,374
Common and preferred stocks	54,322,289
Corporate bonds	45,874,151
Other bonds	19,899,608

Non-categorized:	
Mutual, Money Market Funds	48,880,680
Index Funds	78,553,778
State Treasurer General Account	
Investment Pool	<u>53,306,084</u>
Total cash equivalents and investments	<u><u>\$344,132,964</u></u>

### 3. SECURITIES LENDING TRANSACTIONS

Investments held by the Treasurer of Virginia represent the Plan's allocated share of securities received for securities lending transactions held in the General Account of the Commonwealth. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available on a statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

### 4. PROPERTY, PLANT, AND EQUIPMENT

The following schedule presents property, plant, and equipment in the Plan:

Equipment	\$ 182,508
Less: Accumulated depreciation	<u>(44,959)</u>
Total property, plant, and equipment	<u><u>\$ 137,549</u></u>

### 5. RETIREMENT AND PENSION PLAN

Employees of the Virginia Savings College Plan are employees of the Commonwealth. The employees participate in a defined benefit pension plan administered by the Virginia Retirement System (VRS). The VRS also administers life insurance and health related plans for retired employees. Information relating to these plans is available at the statewide level only in the Commonwealth of Virginia's Comprehensive Annual Financial Report. The Commonwealth, not the Plan, has overall responsibility for contributions to these plans.

### 6. FUNDED STATUS

The Board annually contracts for actuarial services to determine the actuarial present value (APV) of future tuition obligations. This valuation method reflects the present value of estimated tuition benefits that will be paid in future years and is adjusted for the effects of projected tuition increases and the termination of contracts.

APV of Future Benefits and Expenses Payable	\$401,262,181
Net Assets Available	\$490,776,193

The following assumptions were used in the actuarial determination of tuition benefits payable:

Rate of Return (investment of current and future assets)	8.0%
Projected Tuition Increases	7.0%

## **7. DEFERRED COMPENSATION PLAN**

Employees of the Plan may elect to participate in a deferred compensation plan created by the Commonwealth in accordance with Internal Revenue Code Section 457. The deferred compensation plan is administered by the Virginia Retirement System, pursuant to the Government Employees Deferred Compensation Plan Act, Section 51.1, Chapter 6 et seq. of the Code of Virginia. VRS contracts with private corporations or institutions subject to the standards set forth in the Code to provide investment products as well as any other goods and services related to the administration of the deferred compensation plan. The Department of Accounts is responsible for the accounting, reconciliations, and record keeping associated with employees' enrollment, payment to the plan through payroll deductions, and timely transfer of withheld funds to the trustee designated by VRS for investment. The plan is designed so that each participant retains investment control of his/her individual account. The investment options range from a guaranteed rate of return to an aggressive growth fund account which seeks growth of capital. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The assets and the corresponding liability to the employees participating in the deferred compensation program have not been reflected in the accompanying financial statements, as these amounts are solely the property and obligation of the Commonwealth of Virginia.

## **8. RISK MANAGEMENT**

In order to cover its exposures to various risks of loss, the Virginia College Savings Plan, an independent agency of the Commonwealth of Virginia, participates in the Commonwealth's self-insurance plans for state employee health care and risk management insurance. The latter includes worker's compensation, property, general (tort) liability, medical malpractice and automobile plans. Information relating to the Commonwealth's self-insurance plans is available at the statewide level in the Commonwealth's Comprehensive Annual Financial Report.

## **9. RESTATEMENT OF BEGINNING RETAINED EARNINGS**

In fiscal year 2000, the Plan elected to change the method of accrual used to report the Plan's liability for tuition benefits payable and to accrue a receivable for future payments anticipated to be made into the VPEP program. The restatement of the prior year activity to reflect this change of accrual method resulted in a net increase in prior year retained earnings. The Plan elected to accrue a receivable, which reflects the actuarially determined present value of future payments anticipated to be made to the fund by account owners over a period of one to eighteen years. The Plan also elected to accrue a liability, which reflects the actuarially determined present value of future payments anticipated to be made from the Plan to universities for tuition and mandatory fees and for administrative expenses attributable to the current enrollment group over a period of one to twenty-four years. Participation in the VPEP program is voluntary and the Plan has a limited liability to the participants until there is a completed contract. A contract is deemed completed when all anticipated payments have been received. Upon completion of the contract, the Plan provides a payout guarantee. Previously, the Plan did not record receivables for future contributions and only reported as obligations the actual contributions to the program, which were refundable to the participants upon request.

Balance as of June 30, 1999	<u>\$ 24,406,699</u>
Increase in Tuition Contributions Receivable	157,104,727
Increase in Tuition Benefits Payable	<u>(117,179,279)</u>
Net Change in Accrual Method	<u>39,925,448</u>
Balance, June 30, 1999, As Restated	<u>\$ 64,332,147</u>

#### **10. VIRGINIA COLLEGE DREAM FOUNDATION**

The Virginia College Dream Foundation (VCDF) is a private, non-profit 501(c)(3) scholarship foundation founded in 1997. The VCDF enables individuals, organizations, community groups, corporations, and trusts to make charitable contributions, which are then used to purchase VPEP tuition and fee contracts and to open VEST accounts for at-risk youth. The mission of the VCDF is to work with community partners to make the dream of college a reality for deserving youth in Virginia and to create a model for helping at-risk students through state-sponsored college savings programs nationwide.

At June 30, 2000, the VCDF was the owner of record of twenty-two VPEP contracts and four VEST accounts.

VIRGINIA COLLEGE SAVINGS PLAN  
Richmond, Virginia

BOARD MEMBERS

William H. Groseclose, Chairman

William E. Landside, Vice Chairman

Mary G. Morris, Secretary / Treasurer

Jennifer F. Duffy

Robert P. Hanrahan

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EXECUTIVE DIRECTOR

Diana F. Cantor